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STRATEGY RESEARCH PROJECT

ENHANCED COMPETITION: SHAPING THE DEPOTS AFTER NEXT

BY

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by

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ABSTRACT

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If the U.S. intends to maintain its present military edge into the 21st Century, substantial expenditures in research and procurement will be required. The military's overly-large and expensive maintenance depot system has been identified by virtually all defense observers as a key billpayer for these investments. Although a precise vision cannot yet be articulated, the future maintenance depot system - the Depots After Next - must obviously be better, faster, and cheaper than ever before in order to provide the responsiveness, flexibility, and cost savings needed in a volatile, violent and fiscally-constrained environment. Despite a plethora of rhetoric to the contrary, competition for DoD maintenance depot workload has come to a halt. benefits of competition will remain unrealized and this vision of better-faster-cheaper Depots After Next will stay unrevealed until the following strategic objectives are accomplished by DoD: (1) rectify depot cost accounting; (2) reduce legal impediments; (3) increase interservicing; (4) rightsize depot core capability; and (5) incentivize the private sector. Only by removing barriers and capitalizing upon the benefits of unrestrained and open competition can optimal fiscal and operational performance be realized by the Depots After Next.

TABLE OF CONTENTS

Introduction1
The Vision: Depots After Next4
The Rhetoric: Doesn't Match Performance8
Strategic Obj #1: Rectify Depot Cost Accounting10
Strategic Obj #2: Reduce Legal Impediments12
Strategic Obj #3: Increase Workload Interservicing16
Strategic Obj #4: Rightsize Depot Core Capability18
Strategic Obj #5: Incentivize the Private Sector22
The Solution: Enhanced Competition25
Endnotes
Bibliography35

"Competition is the keen cutting edge of business, always shaving away at costs." Henry Ford II¹

The military vision business is booming, and for good reason. Worldly inhabitants are witness to a profound transformation in which national and global institutions and cultures are swiftly moving from the Industrial to the Information Age.² In this post-Cold War era of strategic pause there is but a single dominant global power for the first time since the Roman empire,³ and futurists unabashedly predict unencumbered economic growth, political stability, and technological innovation for the next two decades.⁴ No wonder military publications and defense periodicals are dominated by the vernacular of "future-speak" and entreaties to capitalize on sensor technology, robotics, nanotechnology, hybrid power, micro-miniaturization, and other leap-ahead developments of private industry.

As exciting as new technologies are and as prudent as it is to pursue them, one cannot overlook the business climate responsible for their development. The cellular telephone, cable television, facsimile machines, and the Pentium II microprocessor all benefited from innovations fathered by a surprisingly timeless concept: competition. Since the dawn of time, competition has motivated profound change; the desire to be better, faster and/or cheaper than the competition has always been the underlying stimulus for improvement. Secretary of Defense William Cohen noted recently that "competition is the

driving force in the American economy. It forces organizations to improve quality, reduce costs, and focus on customer needs. Continuously spurred by these forces, American firms are now global leaders in innovation, cost performance, and technological development." Just as the unrelenting forces of the competitive marketplace push mankind deeper into space, demand world-class athletes to run faster, and invigorate less costly and more capable computers, so too can the pressures of competition enhance American national and military power.

One area in which competitive forces must be brought to bear is the defense logistics infrastructure, a domain that has been a target of virtually every significant defense publication of the past several years, to include Joint Vision 2010, Focused Logistics, the Quadrennial Defense Report (QDR), the Defense Reform Initiative (DRI), and reports by the National Defense Panel (NDP) and the Defense Science Board (DSB). Embedded within each document is not only the optimism of the newly dawned information age, but the daunting fiscal challenge of preparing for a new age within a political climate that has allowed American military procurement to shrink over 70% in less that a decade to an amount equal to about four months of sales by the Ford Motor Company. Homogeneous discussion on monetary reductions rarely occurs within the parochially-impaired Washington beltway, but on one point there is remarkable unity of agreement -- the logistics infrastructure must be a principal

billpayer in reversing this negative investments capital trend.

In the words of Secretary Cohen, "DoD must no longer be held back by a burdensome infrastructure" that consumes over 65% of the entire DoD budget.8

Perhaps the most vulnerable element of the defense logistics base is the \$50B DoD depot system, ⁹ a collection of 89,000 government employees operating 22 major facilities and managed by all four Services and a joint activity, the Defense Logistics Agency (DLA). ¹⁰ Large enough to rank in the top 30 companies of the Fortune 500, DoD maintenance depots annually spend about \$15B to execute their mission to provide maintenance support to millions of equipment items, to include 53,000 combat vehicles, 514,000 wheeled vehicles, 372 ships, and 17,300 aircraft. ¹¹ To many, the DoD depot system is an inherently bloated and inefficient Cold War relic that has outlived its usefulness. In sharp contrast to recent reductions of at least 35% in defense budget, force structure, depot personnel, and depot maintenance support requirements, depot systems operating costs have not been significantly reduced. ^{12,13}

If the U.S. intends to maintain its present military edge, substantial investments in research and development will be required, a fact that puts anachronisms such as the 60-year old DoD depot system at risk. The writing on the wall is unambiguous: much of the future military must be funded by cost savings derived from the depot system twenty years in the future

-- the Depots After Next. The purpose of this paper is to provide a view of the future depot system that must achieve these cost savings, and propose a strategy for shaping the Depots After Next using competition. Only by capitalizing on unrestrained and open competition can optimal fiscal and operational performance be realized by the Depots After Next.

THE VISION: DEPOTS AFTER NEXT

"Where there is no vision, the people perish."
Proverbs 29:18

Before aiming a cost-cutting scalpel on the DoD depot system, it is prudent to consider the environment expected to confront military logisticians twenty years from now. There appears ample reason to be optimistic that the global information revolution will continue unabated, and the military will move towards smaller, more flexible and lethal units and platforms in order to provide what <u>Joint Vision 2010</u> calls "full spectrum dominance" Reflecting trends to move from "brute force to brain force" and "replace mass with precision," the future military "is the one arising from trends and decisions that reflect the technology and international security environment of the next century." To the layman, this means the future American military will be hightech, high-speed and highly lethal.

Some argue that we won't need maintenance depots in such a technologically rich environment. Although ultra-reliability, advanced diagnostics, prognostics, and many other technological

advances may ultimately lend credence to this notion, the linkage provided by a depot system to the industrial base of defense industries will clearly be required well into the next century. Full spectrum dominance will require a seamless logistics system capable of projecting in hours and days (rather than months) military forces into every corner of the globe and space -- and sustaining them for extended periods. Military futurists have commented "logistics is perhaps the important issue" of the new age in warfare and stated "strategic logistics will, more than ever, represent a subset of national power because it includes the nation's industrial base and its link to military forces." The much-maligned depot system is now and must continue to be a vital U.S. competency. No need to call Dr. Kevorkian just yet; as long as fighting equipment can fail and supplies can wane, the need for a depot system is vital.

So what does the future depot system look like? Platitudes and clichés abound, but a clear image of depot organization and composition has simply not been articulated. <u>Joint Vision 2010</u> introduced the concept of responsive, flexible and precise "focused logistics," and the NDP speaks of a "lighter, leaner, and more flexible defense infrastructure that ensures military readiness at reduced costs;" and the QDR beckons logisticians to "deliver the right support at the right place on the battlefield at the right time." The writings of these, the DSB, the Joint Staff, the Services, and other prognosticators

notwithstanding, the only common thread is a not-particularly-profound injunction: the Depots After Next must be much better, faster, and cheaper than they are today.

The central issue regarding the better-faster-cheaper future depot system concerns the correct mix of public and private involvement. Returning to the Cold War depot system designed to replicate a large industrial economy is clearly not possible, 22 but Dr. Kenneth Oscar, Acting Assistant Secretary of the Army (Research, Development, and Acquisition), recently expressed a sentiment that is gaining momentum: "The DoD maintenance depot system is a dinosaur that deserves to be extinct; you can privatize and outsource it all and save big bucks."23 Touted as "the coming revolution, 24 defense outsourcing is often seen by Dr. Oscar and others as a tonic for the defense budget blues, a view appealing to those who feel the private sector is inherently more effective than any bureaucratic government operation. 25 World bank researchers found 61 privatized government operations in 18 different countries increased output by 27% and profits by 45%. The DSB identified a plethora of performance comparisons in which private companies beat DoD production efforts, and estimated outsourcing could save the government as much as \$30B annually.27 Privatizationists also point to successes such as the DLA's "Prime Vendor" program, one that cut delivery times from 30 days to 24 hours, and other ongoing contractor efforts

such as the Army Paladin upgrade and Air Force F-117 maintenance, as further evidence of the primacy of private sector. 28

Despite the privatization and outsourcing impetus, significant cost savings have failed to materialize. While there are many small-scale success stories, efforts during the past several years to convert large maintenance depots to private enterprises have been expensive . The GAO examined Air Force privatization efforts in Sacramento, San Antonio, Louisville, and Newark, Ohio, and determined they cost taxpayers at least \$250M annually and failed to reduce excess capacity. 29 Opponents of privatization argue the public sector is more responsive and accountable than private industry; rather than reduce costs, privatization merely transfers them to other forms of social protection such as health care subsidies and welfare. 30 Privatization of government depots is clearly not a panacea; the example of Valujet, a commercial carrier that failed to establish appropriate controls and "outsourced virtually all of their engine and airframe maintenance to third-party companies," serves as a tragic example of this fact. 31

If neither returning the depot system to a predominantly public operation nor completely privatizing the system are appropriate alternatives, then obviously a mix of the two must occur. What is the appropriate private/public mix? First, the Bad News: the answer is impossible to determine; there are simply too many variables and too many unknowns to answer this question

today. Now, the Good News: approximating the right mix now is not important. If a truly competitive environment exists, then the free-enterprise marketplace will motivate the correct public/private mix; the forces of competition will drive the DoD to appropriate levels of public and private involvement.

THE RHETORIC: DOESN'T MATCH PERFORMANCE

"Hateful to me as the gates of Hades is that man who hides one thing in his heart and speaks another."

Homer³²

Fortunately, DoD is no stranger to competition, having considerable experience during the past two decades conducting three distinct types of competition: (1) competition between private enterprises using the competitive bid process; (2) public vs. public competitions, in which government operations compete against each other for a particular workload or service; and (3) private vs. public competitions (PPCs) between government depots and industrial enterprises. PPCs have become increasingly commonplace since the Eisenhower Administration, and were formalized in 1966 with the publication of the Office of Management and Budget Circular A-76, although depot maintenance work is largely excluded by statute from the A-76 process. 33 1996 both the GAO and the DSB reviewed over 2,000 A-76 competitions from 1978 to 1994; GAO analysis showed that the public sector won about half of the A-76 competitions and that "the savings were therefore the result of competition rather than privatization"³⁴ and the DSB concluded that competitive outsourcing improves performance and provides "significant cost reductions based on extensive experience."³⁵ The recent DRI report claims the government averaged saving 31% per competition and concluded DoD competitions increased readiness and saved \$1.5B annually.³⁶

Incredibly, despite the results and the rhetoric, competition in the DoD depot system has come to a virtual standstill. On 4 May 94, citing issues involving excess capacity and cost accounting, then Deputy Secretary of Defense John Deutsch halted depot maintenance public vs. public competition and PPCs. 37 Contrary to the expressed adulation, the surprising truth is that only one significant PPC that has been conducted by DoD in the last five years, the 1997 C-5 maintenance competition won by Warner-Robins Air Force Base. 38

Of course, there are some legitimate reasons for this circumstance, many of which are completely beyond DoD control. However, the benefits of competition will remain unrealized and the vision of the Depots After Next will stay unrevealed until the following strategic objectives are accomplished by DoD: (1) rectify depot cost accounting; (2) reduce legal impediments; (3) increase interservicing; (4) rightsize depot core capability; and (5) incentivize the private sector. To fit this into an endsways-means strategic construct, the execution of these five strategic objectives are the means for enhancing competition, and

competition is the best <u>way</u> to achieve the desired <u>end</u> of better, faster and cheaper Depots After Next.

Strategic Objective #1: RECTIFY DEPOT COST ACCOUNTING

The specific rationale provided by Dr. Deutsch for suspending maintenance competition in May 94 was "financial management systems in the Department and Services are not capable of supporting determination of actual cost of specific workloads."³⁹ One can hardly imagine a more damning indictment, but little has happened in four years to invalidate it, and senior Office of the Secretary of Defense (OSD) staff analysts still claim cost accounting procedures are abysmal.⁴⁰ The accounting firm of Coopers and Lybrand reviewed depot operations in '96 and concluded that internal cost accounting and controls "at the contract and project level at the depots were found to be non-existent or very weak."⁴¹ Hopes to reduce costs remain moot as long as true costs cannot be identified and reported.

The need to capture and report costs accurately cannot be overstated in the present era of fiscal constraint, a fact recognized by the DSB when it defined defense financial information as a "critical need." The NDP felt the problem acute enough to comment, "without good cost data, Defense managers have difficulty identifying inefficient practices and unwittingly make suboptimal resource allocation decisions."

Obviously, flawed cost accounting makes correct choices more difficult to ascertain.

Additionally, DoD's present cost accounting discourages private firms from competing. A widely-held commercial view is that depot cost accounting is often incomplete, inaccurate, and unfair, and industry advocates frequently claim the government fails to capture all overhead costs, such as uniformed personnel and headquarters expenses. 44 The GAO, in discussing problems in depot cost overrun accounting, credit computations, risk evaluations, and overhead determinations, observed "private sector sources believe there is an inherent inequity in public-private depot competition" 45 and noted that unless these perceptions change, private sector offerors may stop competing. 46

Obviously, steps need to be taken immediately to modernize and standardize the cost accounting system presently being used by all four Services and DLA. Unfortunately, the 2 May 97 OSD policy memorandum on PPC cost estimation and accounting does not specify such a requirement. Upgrading the DoD depot system with an across-the-board, modern cost accounting system is a necessary investment that will vastly improve reporting, internal management and effective decision making.

DoD has acknowledged the need for more comprehensive and frequent auditing of department cost accounting procedures, and the Defense Contract Audit Agency has been directed to get more involved in depot cost accounting oversight. Additionally, the

DoD is continuing to capitalize on the expertise of Coopers and Lybrand through an ongoing system-wide audit, 49 and GAO will no doubt continue it's active role in monitoring the depot system. Standardizing, modernizing, and validating cost accounting is absolutely vital if private sector confidence in the system is to be improved and competition enhanced.

Strategic Objective #2: REDUCE LEGAL IMPEDIMENTS

Probably the most difficult obstacles to negotiate on the path of invigorated competition are several imposing legal hurdles. Derived from partisan efforts to protect public-sector jobs, some statutes are so detrimental that Army Deputy Chief of Staff for Logistics LTG John Coburn recently admitted that "due to legislative constraints...we do not foresee the ability to execute public-private competition of Army depot maintenance workload in the near future."⁵⁰

The most egregious legal impediment is Section 2466 of Title 10, commonly referred to as the "50/50 Rule," which allows only 50% of depot workload to be performed by the private sector. Although the Defense Authorization Act of 1998 moved in the right direction by raising this percentage from 40% to 50%, the law still attracts the scorn of the NDP, 51 the QDR, 52 the Joint Staff, 53 the GAO, 54 and the DSB. 55 DoD claims private industry executes 32% of the depot work, 56 leaving only \$1.2B available to be privatized or outsourced, an amount not likely to stimulate

much business interest. To put this in perspective, the combined annual sales in related U.S. industrial sectors (electronics, aerospace, and motor vehicles) in 1991 was over 350 times greater than this \$1.2B figure.⁵⁷ All the Services would like to exceed the 50% limit, but these plans will remain unexecuted unless the 50/50 Rule can be repealed or significantly amended.⁵⁸

Stifling competition, of course, is precisely the intent of the 50/50 Rule and the focus of the Depot Caucus, a bipartisan group of lawmakers devoted to protecting the pork barrels in their districts. 59 The power of the Depot Caucus to defend parochial interests is also evident in the conduct of the Base Realignment and Closures Commission (BRAC). During the 1995 round of base closings, all the Services wanted to shut down unneeded depots and consolidate workload, and both the Army and the Air Force asked to cut two of their five remaining depots. In the Army's case, the BRAC failed to support either closing, which both the GAO and the Army Audit Agency concluded left so much excess capacity that the Army had no choice but to halt additional outsourcing efforts. 60 The Air Force actually fared even worse; the BRAC agreed with the base closings, but Congress and the Depot Caucus, in a have-it-both-ways plan offered by President Clinton, forced the Air Force to "privatize-inplace."61 This meant that the Sacramento and San Antonio depots officially closed, but the unneeded maintenance depots remained open with the same people doing the same work supervised by

commercial contractors. GAO found this hopelessly flawed scheme 20% more costly than transferring the workload to the other depots. 62

Other statutory stumbling blocks must be repealed. Section 364 of the 1998 Defense Authorization Act prohibits the Army from cutting any civilian positions at any of the five Army depots until it can certify to Congress that the new Army Workload and Performance System is fully operational. Since this new management system will take at least two years to complete, Army depot rightsizing is effectively halted. DoD and the NDP have also targeted other protectionist statues of Title 10 that prevent contractors from competing for core maintenance (high-priority mission essential workload) and require special reviews before privatizing or outsourcing depot workload exceeding \$3M.

Many regard challenging Congress on these issues as futile, but DoD must do a better job of making its case that a more competitive environment is in best interests of the nation.

Political reality dictates that members of Congress will remain highly protective of the job market in their constituencies, but they can be convinced to take the longer view in the face of compelling evidence. Two years ago, Secretary of Defense William Perry and three of the four military chiefs pushed extremely hard for privatization on Capital Hill, but their arguments fell on mostly deaf ears because the "proposed depot policy was not well thought out, in general, and was not responsive to congressional

guidance on several important issues, "according to the Senate Armed Services Committee (SASC). Deputy Defense Secretary John White and the Air Force Materiel Command Chief, GEN Henry Viccellio, unfortunately did no better during SASC testimony, as they were repeatedly chided by senators for giving answers that contradicted existing DoD policy. 66

DoD needs to appeal not only to Congressional egalitarian ideals, but their constituent-based principles as well. addition to easing Congressional opposition by choosing places to compete depot workload in communities where DoD doesn't dominate the local economy, DoD officials should persuade lawmakers that the negative effects of base closures are usually short-lived. Economic studies by the OSD's Office of Economic Adjustment demonstrate that within two years after base closure the number of jobs usually exceeds the previous level, and most communities experience substantial improvements as soon as redevelopment plans are executed. 67 Lawmakers need to be convinced to think of a depot competition as an opportunity to stimulate additional business interests in their communities. Rather than a stagnant, government-only job market, base closures will bring in commercial businesses that have the potential to expand. A recent RAND study implored DoD, "if these results could be documented and presented in clear terms to the communities at risk, political opposition to outsourcing should ease" and legal impediments would be removed. 68

Strategic Objective #3: INCREASE WORKLOAD INTERSERVICING

The opportunity for interservicing -- work accomplished by one service's depot or maintenance contract on behalf of another -- should be a catalyst to competition in today's resourceconstrained environment. By sharing workload among the Services, DoD can cut excess capacity, lower overhead costs, increase efficiency, and thus become more capable competitor. Having already cut 43% of the 156,000 DoD depot system positions that existed ten years ago, 69 one would expect DoD to have already capitalized on the efficiencies brought forth by interservicing, but this is clearly not the case. While interservicing is such a critical issue that one of the eight chapters in OSD's FY96-FY01 Defense Depot Maintenance Council Business Plan is devoted to it, interserviced workload in FY95 was only 8.5%, down from 8.7% in FY94. 70 An FY94 OSD study complained of "a reluctance on the part of services to participate in large-scale interservicing"71 and estimated the actual percentage was really as low as 3%.72

Resistance to interservicing is symptomatic of what Paul Bracken lamented when he wrote that the U.S. has "a defense macrostructure that resists change and is overly departmentalized with each service maintaining independent support, depot, .. and logistics centers." The land, sea and air services each have unique platforms and weapon systems and can argue that there is a limit to the amount of feasible interservicing, e.g., Navy ship

repair facilities can't repair Army tanks or Air Force fighters. However, there is considerably more overlap than many are willing to admit. At FY92 study sponsored by the Chairman of the Joint Chiefs of Staff found "a significant amount of similarity and commonality, particularly at the engine and component level, make interservicing many times greater than the current 3%."⁷⁴ Jim Courter, BRAC Commission Chairman; objected to interservice footdragging and complained, "There's nobody there to restrain the military leadership from doing what they think best for their own service...There was no cross-service analysis. They'll never get together until they're forced to."⁷⁵

DoD needs to commence a concerted effort to change these negative perceptions. It is a win-win opportunity for all participants, as the work-gaining depot benefits from greater economies of scale and the work-losing depot enjoys lowered overhead and capital investment requirements. Critics may argue that larger maintenance depots will provide less responsive support to warfighters, but with effective management, the opposite is more likely: warfighters will get better products faster from centralized, efficient production lines.

A means of promulgating interservicing was contained in a recommendation made by the CJSC's 1992 Depot Maintenance Consolidation Study. The senior retired flag officers that led this study recommended the "establishment of a unified command for depot maintenance with full authority to organize current

Service depots,"⁷⁶ an idea echoed by the NDP when they recommended a Joint Logistics Command⁷⁷ and completely in consonance with present emphasis on "jointness," interoperability, and the tenets of Focused Logistics.⁷⁸

Although a complex issue, the creation of a Joint Depot Maintenance Command would clearly reduce administrative overhead and promote interservicing and enable DoD to seize the initiative on interservicing and reduce service redundancies.

Strategic Objective #4: RIGHTSIZE DEPOT CORE CAPABILITY

Hundreds of years ago, Sun Tzu wrote, "when he prepares everywhere he will be weak everywhere," an axiom that addresses the importance of getting the depot system to concentrate on truly vital missions and to "right size." DoD defines core capability as "the capability maintained within organic Defense depots to meet readiness and sustainability requirements of the weapons systems that support the JCS contingency scenario(s)," but core capability is best thought of as a skill so important it cannot be outsourced. By focusing on making the depot system capable of executing only the most critical maintenance tasks, DoD will not fall victim to the Sun Tzu admonition above and become distracted by superfluous missions. With legal impediments removed and appropriate interservicing ongoing, the next challenge is to find the optimum size and structure to

provide this core capability so that the DoD depot system can best compete with private industry for depot workload.

Probably the best analogy regarding the criticality of core maintenance was provided by MG James Monroe, Commander of the Army's Industrial Operations Command, when he called core capability "an insurance policy that has a premium."82 Retaining government control over core capability, like a good insurance policy, ensures maintenance expertise and critical equipment is available when needed, provided the premium is paid. "American policy-making in the national security area tends to be dominated by people with a poor sense of history," said military theorist Colin Gray in providing an apt characterization of those who support completely privatizing core capability. 83 MG (Retired) Paul Greenberg of the National Defense Industrial Association thinks too much privatization is dangerous. He recently commented, "A lot of folks in peacetime say 'Let's save bucks,' but many of these same folks are the first in war to holler 'I want it now!'"84 The private sector in a time of crisis is under no obligation to perform unanticipated missions; contractors saying, "sorry, but that's not in the contract" or "the stockholders won't let us do that" are not acceptable responses during a national emergency. Government operations don't go out of business, don't go on strike, and don't stop production when the product become old and unprofitable; rather, highly-skilled and flexible government workforces and facilities allow

maintenance depots to escalate to a heightened level of support during national crises.

The Gulf War brought this surge capability to light. While most contractors generally performed well, one major contractor withdrew its personnel from the theater when faced with the threat of Scud attacks, and owners of Civil Reserve Air Fleet (CRAF) aircraft lobbied to discourage DoD for asking for these assets, despite having been subsidized for years so as to provide this capability. DoD depots, on the other hand, performed superbly throughout the duration of the war. Over 700 depot personnel deployed to the gulf region and anecdotal evidence of success is extensive. One oft-repeated example concerns the Marine Corps depot that designed and built a ballistic protection kit for a D-7 bulldozer in two months after it was determined commercial industry couldn't do it in less than 18.86 The ability to respond quickly and decisively will be even more important in the violent and rapid future environment.

Despite the OSD commitment to government retention of this proficiency, DoD must take actions to rightsize depot core capability. A critical first step is the development of a universal definition of core capability. A 1993 OSD study complained of the confusion surrounding core capability and stated "each Service still conceptualized and quantified CORE differently to meet its own requirements." A senior DoD official echoed this concern when he said "the collapse of the

Soviet Union has dramatically changed how people thought about core capabilities...We don't yet have a new definition, and we clearly have to develop one."88 More recently, MG (Retired)

Greenberg commented that "OSD, the Joint Staff, and the Services have yet to come to grips with how to define and quantify depot core capability in a standard, coherent and feasible manner."89

Quantifying core depot requirements in terms of direct labor hours is another effort that is required to rightsize core capabilities. Fortunately, efforts within the Defense Depot Management Council (DDMC), OSD's depot oversight committee, and the Services are ongoing. A methodology for calculating depot maintenance core requirements has been developed and circulated via electronic mail. 90 As comprehensive as this product appears to be, the effort needs to be legitimized by formal staffing and publication.

Only after developing both a standard core definition and methodology can the difficult task of getting DoD depots to the right size begin. For example, if a Joint core methodology determines that automotive lead acid battery repair is not a core maintenance requirement, then the DDMC can divest the DoD maintenance depots of battery repair machinery and capital. Similarly, if a Joint core methodology yields the finding that weapons system circuit card repair is a core maintenance task, then the DDMC can lay out a plan to consolidate and invest as appropriate to enhance DoD's circuit card repair ability. This

process may downsize the depot system considerably, but, regardless of how small the depot system eventually becomes, it is imperative that rightsizing be accomplished in the next few years so that our maintenance depots are as efficient and competitive as possible.

Strategic Objective #5: INCENTIVIZE THE PRIVATE SECTOR

"A substantial portion of our depot-level maintenance requirements are acquired under private sector contracts awarded using other than full and open competition (often sole source)."91 So wrote the Acting Under Secretary of Defense, Acquisition and Technology, Mr. R. Noel Longuemare, testimony to the fact that effective competition, and the cost savings and service improvements associated with it, requires at least two rivals. Previous recommendations to increase workload interservicing and rightsize depot core capability focused on strengthening the public sector; with cost accounting fixed and legal impediments removed, the stage is set to encourage robust participation from private industry.

Perhaps the most effective way to encourage more participation is to make it easier and cheaper for commercial firms to compete. A frequent target of advocates for simplification is OMB Circular A-76, the procedures that guide most PPCs. Even the J-4's Focused Logistics document calls the A-76 bureaucratic process "cumbersome and lengthy" and a DSB

report advocated revoking the Circular altogether. 93 Making work specifications and bid administration simple saves not only the labor that goes into preparation, but allows competitors greater latitude to innovate. An OSD study noted that the Navy benefited when they changed their very detailed "how to" shipyard work specifications to those that were much less precise, instructions that emphasized the end state instead of the process.94 Dr. Walter LaBerge of the Defense Systems Management College studied almost identical military and commercial equipment and concluded that excessively-complex specifications generally made the military equipment less reliable, bigger, considerably more costly to purchase and maintain, and took longer to acquire. 95 Simplified measures are likely to attract more participation from private firms that are new to the defense industry; it is in DoD's best interests to spur bids for depot work from not only Rockwell, TRW and other defense companies, but mainstream Fortune 500 outfits like General Motors and Harley-Davidson, too.

Another means of attracting more competitors to depot maintenance workload is to package depot workload contracts in a more inventive manner. Since the private sector is motivated by primarily by profit, making bids larger and more lucrative, allowing government facilities and excess capacity to be leased to lower capital investment requirements, ⁹⁶ and using multiple-year contracts will help to encourage long-term business interest. OSD has recently expressed a renewed interest in

making workload competitions more attractive to potential bidders. The principal risk in making contracts bigger is that they will only appeal to the largest companies, thus encouraging mergers and single-sourcing, two obvious enemies of competition. Nevertheless, if DoD ensures the workload is spread fairly, participation rates should improve considerably.

Another way to encourage the private sector to compete more is to improve government credibility. Many corporations fail to compete because they feel that the "deck is stacked" against them; despite the many regulations and policies on the books prevent conflict of interest, industry often assumes public decision makers instinctively favor other public facilities or large defense firms. OSD recently published guidance to address this situation, stating that the government should share information regarding work requirements and opportunities equally with private and public offerors, thereby improving communications and gaining the trust of more commercial firms. 99

DoD would do well to mimic the example of Toyota, an automaker that has convinced many different suppliers to compete for sub-component repair workload. When one falters in terms of price, quality, or delivery schedule, Toyota quickly shifts to another provider, a process that has led to greatly improved service and reduced costs. GAO determined that multiple source bids tend to stimulate more savings that single-source bids; the greater the number of competitors, the greater the savings for

the taxpayer. 101 Incentivizing the private sector with simplified procedures, innovative bid packaging, and improved communications will ensure additional participation and, hence, increased competition for depot workload.

THE SOLUTION: ENHANCED COMPETITION

"Competition brings out the best in everyone." William S. Cohen 102

The next several years are critical to the DoD maintenance depot system. Cost efficiencies to pay for future military investments must be found, and our depots are a visible and obvious target. The depot system is costly, inefficient, and excessive in size. In the words of MG Monroe, "our depots are too large... in the future they need to be about 1/3 of their current size." Determining whether or not the system should be cut is not debatable; the issue is how.

The problem of cutting depot infrastructure so investments can be made in our future high-tech military does not require a high-tech solution. Competition always has been and will undoubtedly continue to be key in advancing mankind, a fact that did not escape the NDP when they wrote, "choice and competition motivate individuals and organizations to seek innovative approaches to meeting customer needs. Increasing the role of competitive forces...would be essential to achieving lower costs and improved service quality." These forces were certainly evident when Warner-Robins Air Logistics Center beat the private

sector and won the 1997 C-5 maintenance workload, an effort that saved taxpayers \$190M. Similarly, competition stimulated

Anniston Army Depot and United Defense recently to work together to rebuild M113's, and in doing so cut costs 15%. 106

Competition works. It not only affords the government more choices and lower costs, but more closely links DoD with the ongoing information and business renaissance, a major element of U.S. national power. Competition strengthens and toughens all participants; as both the government and the private sector strive to win contracts with lower costs and better service, both sides naturally get leaner, meaner, and better, and the synergistic resultant benefits the taxpayer and enriches the American technical and commercial base. The dynamism of the free market must be used by DoD to answer the demands of the NDP, the DSB, and virtually all observers of the defense community to reduce logistics infrastructure and costs. The simple and obvious truth is that enhanced competition will stimulate the Depots After Next to perform better, faster and cheaper, and promote American military and industrial might in the process.

Word Count = 5779

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